

103<sup>D</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 4484

To improve the single family housing mortgage insurance program of the Department of Housing and Urban Development.

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IN THE HOUSE OF REPRESENTATIVES

MAY 24, 1994

Mr. ORTON introduced the following bill; which was referred to the Committee on Banking, Finance and Urban Affairs

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## A BILL

To improve the single family housing mortgage insurance program of the Department of Housing and Urban Development.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “FHA Improvement Act  
5 of 1994”.

6       **SEC. 2. CONGRESSIONAL FINDINGS.**

7       The Congress finds that—

8               (1) the single family housing mortgage insur-  
9               ance program of the Department of Housing and  
10              Urban Development is a significant factor in pro-

1 moting first-time and affordable homeownership in  
2 the United States;

3 (2) use of mortgage financing under the pro-  
4 gram has decreased in recent years, due in part to  
5 increasing complexity of mortgage origination and  
6 servicing under the program;

7 (3) simplifying and streamlining the loan cri-  
8 teria and loan approval process under the program  
9 would have a positive effect on use of the program  
10 without increasing risk to the Mutual Mortgage In-  
11 surance Fund; and

12 (4) flexible lending products can be developed  
13 without increasing risk to the Mutual Mortgage In-  
14 surance Fund.

15 **SEC. 3. LOAN FLOOR.**

16 Subparagraph (A) of the first sentence of section  
17 203(b)(2) of the National Housing Act (12 U.S.C.  
18 1709(b)(2)(A)) is amended by striking the matter follow-  
19 ing clause (ii) and inserting the following:

20 “except that the applicable dollar amount limi-  
21 tation in effect under this subparagraph (A) for  
22 any area may not be less than the greater of—

23 “(I) the dollar amount limitation in  
24 effect under this section for the area on

1 the date of enactment of the FHA Im-  
2 provement Act of 1994; or

3 “(II) the applicable average area pur-  
4 chase price determined under section  
5 143(e)(2) of the Internal Revenue Code of  
6 1986, as adjusted by the Secretary to re-  
7 flect a single amount using purchase prices  
8 for residences that have been previously oc-  
9 cupied, and for residences that have not  
10 been so occupied, which amount shall be  
11 adjusted by the Secretary annually on the  
12 basis of the Constant Quality Housing  
13 Price Index;”.

14 **SEC. 4. CALCULATION OF DOWNPAYMENT.**

15 Section 203(b)(2) of the National Housing Act (12  
16 U.S.C. 1709(b)(2)) is amended—

17 (1) by striking subparagraph (B) and inserting  
18 the following new subparagraph:

19 “(B) except as otherwise provided in this  
20 paragraph (2), not in excess of—

21 “(i) 98.75 percent of the appraised  
22 value of the property, in the case of a  
23 mortgage with an appraised value equal to  
24 or less than \$50,000, or

1           “(ii) 97.5 percent of the appraised  
2           value of the property, in the case of a  
3           mortgage with an appraised value in excess  
4           of \$50,000,

5           plus the amount of the mortgage insurance pre-  
6           mium paid at the time the mortgage is in-  
7           sured.”;

8           (2) by striking the 2d sentence of the matter  
9           following subparagraph (B); and

10          (3) in penultimate undesignated paragraph—

11           (A) in the 2d sentence, by striking “the  
12           preceding sentence” and inserting “this sub-  
13           section”; and

14           (B) by striking the first sentence.

15 **SEC. 5. ISSUANCE OF INSURANCE BY MORTGAGEES.**

16          Section 215 of the National Housing Act (12 U.S.C.  
17 1715f) is amended—

18           (1) by inserting “(a) MORTGAGES WITHOUT IN-  
19           SURED PERMANENT FINANCING.—” after “SEC.  
20           215”; and

21           (2) by adding at the end the following new sub-  
22           section:

23           “(b) ISSUANCE OF INSURANCE CERTIFICATES BY  
24           MORTGAGEE.—Not later than the expiration of the 180-  
25           day period beginning on the date of the enactment of this

1 Act, the Secretary shall implement a system for insuring  
2 mortgages under this title involving properties upon which  
3 are located 1- to 4-family dwelling units that provides that  
4 any mortgagee that is authorized by the Secretary to proc-  
5 ess mortgages as direct endorsement mortgages may en-  
6 dorse a mortgage for insurance, execute a firm commit-  
7 ment for insurance binding upon the Secretary, and issue  
8 a certificate of mortgage insurance under this title, with-  
9 out review and approval by the Secretary of the specific  
10 mortgage.”.

11 **SEC. 6. ELIMINATION OF RESTRICTIONS REGARDING NEW**  
12 **CONSTRUCTION.**

13 (a) IN GENERAL.—Section 203(b)(2) of the National  
14 Housing Act (12 U.S.C. 1709(b)(2)) is amended, in the  
15 matter following subparagraph (B) (as amended by sec-  
16 tion 3 of this Act)—

17 (1) in the 1st undesignated paragraph, by strik-  
18 ing “Notwithstanding any other provision of this  
19 section,” and all that follows through “beginning of  
20 construction.”; and

21 (2) by striking the 2d undesignated paragraph  
22 (relating to mortgage insurance amounts for resi-  
23 dences having solar energy systems)

24 (b) REPEAL OF AUTHORITY TO EXPEND AMOUNTS  
25 FROM INSURANCE FUND TO CORRECT SUBSTANTIAL DE-

1 FECTS.—Section 518 of the National Housing Act (12  
2 U.S.C. 1735b) is hereby repealed.

3 **SEC. 7. AUTHORITY TO USE AMOUNTS BORROWED FROM**  
4 **FAMILY MEMBERS FOR DOWNPAYMENTS.**

5 (a) IN GENERAL.—Section 203(b)(9) of the National  
6 Housing Act (12 U.S.C. 1709(b)(9)) is amended by insert-  
7 ing before the period at the end the following: “: *Provided*  
8 *further*, That for purposes of this paragraph, the Secretary  
9 shall consider as cash or its equivalent any amounts bor-  
10 rowed from a family member (as such term is defined in  
11 section 201), subject only to the requirements that, in any  
12 case in which the repayment of such borrowed amounts  
13 is secured by a lien against the property, such lien shall  
14 be subordinate to the mortgage and the sum of the prin-  
15 cipal obligation of the mortgage and the obligation secured  
16 by such lien may not exceed 100 percent of the appraised  
17 value of the property plus any initial service charges, ap-  
18 praisal, inspection, and other fees in connection with the  
19 mortgage”.

20 (b) DEFINITION OF FAMILY MEMBER.—Section 201  
21 of the National Housing Act (12 U.S.C. 1707) is amended  
22 by adding at the end the following new subsections:

23 “(e) The term ‘family member’ means, with respect  
24 to a mortgagor under such section, a child, parent, or  
25 grandparent of the mortgagor (or the mortgagor’s

1 spouse). In determining whether any of the relationships  
2 referred to in the preceding sentence exist, a legally adopt-  
3 ed son or daughter of an individual (and a child who is  
4 a member of an individual's household, if placed with such  
5 individual by an authorized placement agency for legal  
6 adoption by such individual), and a foster child of an indi-  
7 vidual, shall be treated as a child of such individual by  
8 blood.

9       “(f) The term ‘child’ means, with respect to a mort-  
10 gator under such section, a son, stepson, daughter, or  
11 stepdaughter of such mortgagor.”.

12 **SEC. 8. APPROVAL OF CONDOMINIUM PROJECTS.**

13       Section 234 of the National Housing Act (12 U.S.C.  
14 1715y) is amended by striking subsection (k) and insert-  
15 ing the following new subsection:

16       “(k) APPROVAL OF PROJECTS.—

17               “(1) IN GENERAL.—A mortgage covering a  
18 multifamily project or a condominium unit in a mul-  
19 tifamily project shall be eligible for mortgage insur-  
20 ance under this section notwithstanding any other  
21 provision of this section relating to requirements for  
22 multifamily projects if the project has been approved  
23 by a government-sponsored housing enterprise and—

24                       “(A) in the case of a mortgage covering  
25 any condominium unit in the project, the mort-

1           gage otherwise complies with the requirements  
2           under this section regarding eligibility of mort-  
3           gages for mortgage insurance provided under  
4           subsection (c); and

5           “(B) in the case of a blanket mortgage  
6           covering the multifamily project, the mortgage  
7           otherwise complies with the requirements under  
8           this section regarding eligibility of mortgages  
9           for mortgage insurance provided under sub-  
10          section (d).

11          “(2) DEFINITIONS.—For purposes of this sub-  
12          section, the following definitions shall apply:

13                 “(A) The term ‘approved by a government-  
14                 sponsored housing enterprise’ means, with re-  
15                 spect to a multifamily housing project having a  
16                 condominium ownership structure, that a gov-  
17                 ernment-sponsored housing enterprise has de-  
18                 termined that any mortgage covering the  
19                 project or any condominium property in the  
20                 project may be purchased by the enterprise if  
21                 such mortgage is otherwise determined by the  
22                 enterprise to meet the standards and require-  
23                 ments of the enterprise relating to mortgages.

24                 “(B) The term ‘condominium unit’ means,  
25                 with respect to a multifamily property, a 1-fam-

1           ily dwelling unit in the project and an undivided  
2           interest in the common areas and facilities that  
3           serve the project.

4           “(C) The term ‘government-sponsored  
5           housing enterprise’ means—

6                   “(i) the Federal National Mortgage  
7                   Association; and

8                   “(ii) the Federal Home Loan Mort-  
9                   gage Corporation.”.

10 **SEC. 9. INSURANCE OF 2-STEP SINGLE FAMILY MORT-**  
11 **GAGES.**

12           Title II of the National Housing Act (12 U.S.C. 1701  
13 et seq.) is amended by adding at the end the following  
14 new section:

15                   “2-STEP SINGLE FAMILY MORTGAGES

16           “SEC. 256. (a) AUTHORITY.—After making the find-  
17 ing required under subsection (d), the Secretary may in-  
18 sure under any provision of this title a mortgage involving  
19 property upon which there is located a dwelling designed  
20 principally for occupancy by 1 to 4 families, where the  
21 mortgage provides that the effective rate of interest  
22 charged is—

23                   “(1) fixed for the duration of a specified period  
24           that consists of not less than the first 5 years of the  
25           mortgage term;

1           “(2) adjusted by the mortgagee upon the expi-  
2           ration of the specified period referred to in para-  
3           graph (1) for the mortgage; and

4           “(3) for the term of the mortgage remaining  
5           after such adjustment—

6                   “(A) fixed at the adjusted rate established  
7                   pursuant to paragraph (2); or

8                   “(B) periodically adjusted by the mortga-  
9                   gee.

10          “(b) REDETERMINATION OF RATE.—For each mort-  
11          gage insured pursuant to this section, the adjustment of  
12          the effective rate of interest pursuant to subsection (a)(2)  
13          may be accomplished through adjustments in the monthly  
14          payment amount, the outstanding principal balance, or the  
15          mortgage term, or a combination of such factors, except  
16          that in no case may any extension of a mortgage term  
17          result in a total term in excess of 40 years. The adjust-  
18          ment in the effective rate of interest shall correspond to  
19          a specified national interest rate index that is approved  
20          in regulations issued by the Secretary and information on  
21          which is readily accessible to the mortgagors from gen-  
22          erally available published sources.

23          “(c) LIMITATIONS ON SECOND-STEP PERIODIC  
24          RATES.—For each mortgage insured pursuant to this sec-  
25          tion for which the effective rate of interest charged pursu-

1 ant to subsection (a)(3) is periodically adjusted under sub-  
2 paragraph (B) of such subsection, such adjustments in the  
3 interest rate—

4 “(1) may be accomplished through adjustments  
5 in the monthly payment amount, the outstanding  
6 principal balance, or the mortgage term, or a com-  
7 bination of such factors, except that in no case may  
8 any extension of a mortgage term result in a total  
9 term in excess of 40 years;

10 “(2) shall correspond to a specified national in-  
11 terest rate index that is approved in regulations is-  
12 sued the Secretary and information on which is  
13 readily accessible to the mortgagors from generally  
14 available published sources;

15 “(3) shall be made on an annual basis;

16 “(4) shall be limited, with respect to any single  
17 interest rate increase, to no more than 1 percent on  
18 the outstanding loan balance; and

19 “(5) be limited to a maximum increase of 5 per-  
20 centage points above the initial contract interest rate  
21 over the term of the mortgage.

22 “(d) CONDITIONS ON INSURING AUTHORITY.—The  
23 Secretary may insure mortgages pursuant to this section  
24 only after determining that the risk posed by such insur-  
25 ance to the financial safety and soundness of the insurance

1 fund of which the mortgage insurance is an obligation does  
2 not exceed such risk posed by insurance of mortgages of  
3 equivalent terms having fixed interest rates over such  
4 terms.

5 “(e) DESCRIPTION OF FEATURES.—The Secretary  
6 shall issue regulations requiring that the mortgagee make  
7 available to the mortgagor, at the time of loan application,  
8 a written explanation of the features of the 2-step mort-  
9 gage insured pursuant to this section.

10 “(f) LIMITATION OF TOTAL NUMBER OF MORTGAGES  
11 INSURED.—The aggregate number of mortgages and  
12 loans insured pursuant to this section in any fiscal year  
13 may not exceed 10 percent of the aggregate number of  
14 mortgages and loans insured by the Secretary under this  
15 title during the preceding fiscal year.”.

16 **SEC. 10. STUDY REGARDING MORTGAGE INSURANCE PRE-**  
17 **MIUMS AND MORTGAGE AMOUNT LIMITA-**  
18 **TIONS.**

19 The Secretary of Housing and Urban Development  
20 shall conduct a study to determine—

21 (1) various methods of decreasing the amounts  
22 of the up-front and annual premiums charged for  
23 mortgage insurance under the single family home  
24 mortgage insurance program under title II of the  
25 National Housing Act; and

1           (2) the effects of such various methods on the  
2           financial safety and soundness of the Mutual Mort-  
3           gage Insurance Fund.

4 Not later than the expiration of the 18-month period be-  
5 ginning on the date of the enactment of this Act, the Sec-  
6 retary shall submit a report to the Congress containing  
7 the findings of the study under this section and any rec-  
8 ommendations of the Secretary resulting from such find-  
9 ings.

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